The Mayekawa Lecture: Challenges to Independence: How should Central Banks Respond —Lessons from History

by Donald Kohn

I. Introduction

I am honored to deliver this conference's Mayekawa Lecture. Governor Ueda asked me to reflect on central bank independence, drawing on my experience and the lessons history offers for protecting it.

Threats to independence have risen sharply in the United States—to levels not seen since the Fed-Treasury accord of 1951. My remarks will draw primarily on the institutional and political circumstances of the U.S. But speeches by central bankers outside the U.S. suggest these concerns are broader, and preserving independence has become among the defining institutional challenges of the moment.[1]

I'll start by defining independence and documenting the growing pressures against it. I'll ask why these pressures have intensified and what central banks can do in response. In addition to my own experience, I will draw on conversations with a number of current and former central bankers as I prepared this lecture.

II. What Do We Mean by Independence

I suspect no one in this audience doubts the importance of insulating central banks, to some degree, from short-term political pressures. We have extensive evidence—across time and across countries—that when politicians control monetary policy, electoral incentives make it difficult to sustain a credible commitment to price stability. Recognizing the need for a longer horizon, elected representatives have delegated authority to independent central banks with clearly defined objectives—most often price stability, or in the case of the US, maximum employment and price stability.[2]

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1. Recent examples include: Bailey (2026), Hernández de Cos (2025), and Schnabel (2026).
2. The case for independent central banks is summarized well in the amicus brief filed by former Federal Reserve Chairs and Treasury Secretaries in the Lisa Cook case.

In a democracy, however, delegated authority has limits. In the United States it applies primarily to monetary policy in the pursuit of that "dual mandate". It does not extend to regulatory authority, which is more inherently political and is coordinated with other federal and state agencies. But it does encompass lender of last resort functions for banks to support financial stability. I will return later to the complicated intersection of central bank independence and financial stability.

Democratic accountability is maintained in the give and take between the central bank and elected representatives. And control is asserted over the medium and long-term through the appointments process. In the U.S. Federal Reserve governors are appointed by the president and confirmed by the Senate.

Independence rests on both laws and norms. Legally, the Federal Reserve controls its own budget; governors serve long staggered terms; chairs and vice chairs are designated for four-year terms; and governors can only be removed "for cause", generally understood to mean serious misconduct in office rather than policy disagreement. Reserve Bank presidents, who participate in monetary policy deliberations as effectively external members of the policy committee, are chosen by regional boards, subject to the approval of the Federal Reserve Board.

But legal protections alone are insufficient. Independence also depends on norms: appointing technically qualified officials willing to exercise independent judgment; respecting the diversity of views among reserve bank presidents; and the principle that policy disagreement is not grounds for dismissal. It is this final norm that President Trump, in effect, has been challenging.

III. Threats Have Increased and Could Intensify Further

President Trump's efforts to exert greater control over the Federal Reserve are unusual in scale and intensity, accompanied by sustained and often personal public criticism of Chair Powell and Federal Reserve policy.

To be sure, presidents have long preferred lower interest rates. Some have voiced that preference publicly; others exerted substantial pressure behind the scenes—notably Lyndon Johnson on William McChesney Martin and Richard Nixon on Arthur Burns. History suggests that when central banks yield to sustained political pressure for easier policy, inflation often follows.

The limited congressional response to recent threats has been troubling. Legislators in both parties generally understand and defend the principle of central bank independence. But many Republicans appear reluctant to challenge the president directly, while Democrats—though often supportive of independence—have historically placed greater emphasis on the employment side of the Federal Reserve's dual mandate and have not always been equally comfortable with an independent central bank prioritizing price stability.

The broader economic environment may intensify these political pressures. In many advanced economies, including the United States, rising public debt implies

https://business.cch.com/BFLD/Trump-v-Cook-US-Amici-Curiae-Former-Treasury-Secretaries-Fed-Chairs-09252025.pdf.

growing debt-service burdens that constrain governments' fiscal choices, especially if higher interest rates are needed to contain inflation.

At the same time, several structural disinflationary forces that supported price stability between roughly 1990 and 2019 are weakening or reversing. Trade liberalization and the integration of large economies into global markets lowered costs and supported disinflation. Today, tariffs, industrial policy, and efforts to build more resilient supply chains may work in the opposite direction.

Recent years have also been marked by adverse supply shocks: pandemic disruptions, energy price spikes following Russia's invasion of Ukraine and conflict in the Middle East, and tariff increases. These shocks raise prices while reducing real incomes—effects monetary policy cannot fully offset. Yet they also heighten public dissatisfaction with economic outcomes and increase the temptation for political leaders to assign blame to central banks.

Ironically, these circumstances strengthen rather than weaken the case for independence. When inflationary pressures arise from forces beyond monetary policy's control, political incentives to demand short-run relief become stronger, even as the need for disciplined policy becomes greater.[3]

IV. How Did We Get Here

President Trump's efforts to pressure the Federal Reserve may be extreme, but they emerge from broader political and economic developments. Across many democracies, populist movements have drawn strength from dissatisfaction with economic outcomes—especially rising inequality, stagnant mobility, and pessimism about the future.

These movements are often characterized by distrust of technocrats who are perceived as distant from the concerns of much of the population. Populist movements also tend to be skeptical of globalization—the freer movement of goods, capital, and people across borders—which many citizens see as benefiting elites while leaving others behind. Economists often emphasize aggregate gains in efficiency and lower costs from globalization; populist political movements focus more heavily on visible distributional consequences and the erosion of national autonomy. Rules-based systems and international commitments may therefore be viewed less as safeguards and more as constraints on corrective action, including trade restrictions or industrial policy.[4]

Distrust of technocratic institutions is often accompanied by a preference for more centralized political authority and by increasing polarization of political life. The rapid spread of unfiltered information through social media has amplified these tendencies, making it harder to distinguish fact from fiction and more difficult to sustain confidence in expert institutions.

Central banks are particularly vulnerable in this environment. By design, they are technocratic institutions. Their decisions depend on analysis, evidence, and long-term reasoning rather than immediate political responsiveness. They operate within an inter-

3. These forces and the need to strengthen independence are discussed in Afrouzi *et al*. (2024) and Kohn (2024) comment on this paper. https://www.brookings.edu/articles/changing-central-bank-pressures-and-inflation/.
4. For a more complete discussion see Goodhart and Lastra (2018).

national system of cooperation. Central banks are often perceived—fairly or not—as aligned with the interests of financial institutions rather than the broader public. Most importantly, central bank independence constrains elected leaders, which makes it a natural target for movements skeptical of institutional limits on political authority.

Economic events over the past two decades have reinforced these pressures on central banks. The Federal Reserve was criticized for failing to foresee or prevent vulnerabilities that contributed to the Global Financial Crisis and later for the inflation surge of 2021–23. Both episodes had multiple causes, many outside the control of central banks. But central banks are ultimately held responsible for financial and price stability, and failures—whether perceived or real—can erode public confidence.

Crisis responses also generated backlash. Near-zero interest rates and large-scale asset purchases were criticized for widening wealth inequality and blurring the boundary between fiscal and monetary policy. Emergency lending during the financial crisis was portrayed as "bail outs" favoring financial institutions over households harmed by the crisis.

In the United States, the post-pandemic inflation miss was partly self-inflicted. In 2020, the FOMC adopted a revised framework that emphasized the benefits of a strong labor market and placed less weight on preemptive responses to inflation risks. In my view, the framework and its implementation in forward guidance on rates and securities purchases contributed to a delayed response to emerging inflation pressures in 2021.[5]

The Federal Reserve also justified aspects of the framework in part by reference to employment opportunities for historically disadvantaged demographic groups.[6] However well intentioned, this risked stretching a narrow macroeconomic mandate toward objectives monetary policy is not well suited to achieve with a single instrument.

Some central banks also entered politically contested terrain—Brexit in the United Kingdom, climate policy in Europe and the United Kingdom. Ethical lapses by several Federal Reserve officials related to financial trading further damaged institutional credibility.

V. What Can Central Banks Do to Strengthen the Support for Independence?

In a democracy, the degree of central bank independence ultimately depends on political support, reinforced by legal protections that are respected by the courts. Central banks therefore need to ask what they themselves can do to sustain that support in a more difficult political environment.

At a high level, the answers are straightforward—though much harder to implement.

First, central banks should remain focused on the core objectives assigned by law

5. See Eggertsson and Kohn (2023): https://www.brookings.edu/articles/the-inflation-surge-of-the-2020s-the-role-of-monetary-policy/. To be fair, many members of the FOMC do not agree with our analysis; they point to very similar experiences in jurisdictions where there was no change in the historic focus on price stability. In this view, the main culprit was faulty inflation forecasts. Nonetheless, the 2020 alterations were largely reversed in 2025 (Powell 2025). https://www.federalreserve.gov/newsevents/speech/powell20250822a.htm.
6. Powell (2020a). https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm.

and justified by experience: price stability and, where relevant, financial stability. They should avoid peripheral or politically contested objectives that risk distracting from those missions or diluting accountability.

This is not simply a question of institutional restraint. Monetary policy is already difficult. Supplemental goals can complicate decision-making and blur the connection between policy actions and legislated objectives. That connection matters—not only for accountability, but for policy effectiveness.

Second, central banks must be as successful as possible. Competence is the strongest defense of independence. If central banks repeatedly fail to achieve their mandates, the rationale for delegating authority weakens.

Of course, much lies outside their control: supply shocks, geopolitical events, fiscal choices, and structural change. But central banks must provide a credible explanation of how policy will navigate these developments and return the economy toward mandated objectives. And when policy falls short, candid analysis of mistakes can strengthen rather than weaken credibility.

Third, communication matters. Central banks have made enormous progress in communicating with markets and academics. Reaching legislators and the broader public—the ultimate arbiters of independence—has proven more difficult, but also increasingly necessary.

I will organize the remainder of these remarks around those three themes: focus, success, and communication. I begin with monetary policy, drawing on the experiences of the three chairs with whom I worked most closely—Paul Volcker, Alan Greenspan, and Ben Bernanke. I will then turn to two especially difficult challenges for independence: unsustainable fiscal trajectories and financial instability.[7]

VI. Monetary Policy

Focus: For most central banks, price stability is their primary legal objective. Even for a dual mandate central bank like the Federal Reserve, price stability is a necessary condition for meeting its other goal of maximum employment on a sustained basis. When households and businesses don't have to factor a guess about future inflation into their decision-making, uncertainty is reduced and resource allocation is more efficient. And by anchoring inflation expectations, credibility for achieving price stability gives scope for the central bank to lean against many disturbances to maximum employment. Paul Volcker, Alan Greenspan, and Ben Bernanke, all focused their monetary policy communication and actions around this proposition.[8]

Let me be clear that I am not suggesting a singular focus on price stability that ignores the effects of monetary policy on income and employment. There are often

7. Schnabel (2026) addresses these issues from the ECB's perspective. https://www.ecb.europa.eu/press/key/date/2026/html/ecb.sp260507_1~d5ae988ece.en.html.
8. For example, Greenspan: "a central bank's vigilance against inflation is more than a monetary policy cliche, it is, of course, the way we fulfill our ultimate mandate to promote maximum sustainable growth." For many similar examples from Volcker and Greenspan see López-Salido *et al.* (2024): https://www.federalreserve.gov/econres/feds/files/2024041pap.pdf?utm_source=chatgpt.com. Greenspan (2001): https://www.federalreserve.gov/boarddocs/speeches/2001/200105242/default.htm. Bernanke (2006) articulated the same idea in https://www.federalreserve.gov/newsevents/speech/bernanke20060224a.htm.

multiple paths to price stability; central banks should acknowledge in their communications and their policies that their choices will affect labor markets and opt for those that minimize adverse effects. Volcker, Greenspan and Bernanke were all flexible inflation targeters, even if the first two didn't call it that.

Success: Success begins with clarity about the mandate and with a coherent explanation of how policy actions support it. That explanation is a key to successful policy. Models help organize a complicated world and illuminate historical relationships, but they are simplifications. They depend on assumptions, incomplete knowledge, and imperfect representations of human behavior. In practice, policymaking requires something more: a narrative—a disciplined story about what is happening in the economy, what forces are driving outcomes, and how policy should respond. Models inform that story, but they cannot substitute for it. The narrative must be grounded in evidence, internally coherent, and open to revision when facts change. That last requirement points to two essential policymaking virtues: flexibility and humility.[9]

Recognizing when a story no longer fits the evidence is often harder than constructing it in the first place. Paul Volcker offers an example. In 1979 he embraced monetary targeting because he believed controlling money growth was necessary to reduce inflation and because it freed policymakers from pretending they knew precisely what interest-rate path would restore price stability. By 1982, however, circumstances had changed. Inflation had fallen but remained elevated, unemployment and interest rates were extraordinarily high, strains in the banking system were emerging, and financial deregulation had weakened the relationship between money growth and inflation. Volcker adapted. He moved back toward interest-rate targeting without abandoning the longer-run objective of restoring price stability.

Alan Greenspan greatly admired what Volcker had accomplished, and he was determined to finish the job. He was very clear that price stability remained the lodestar of monetary policy; he leaned hard against any early signs of a coming uptick, and he monitored inflation expectations carefully for hints of backsliding. But inflation was sufficiently low that he didn't see the need to put the economy through the ringer to achieve that last mile.

Greenspan always had a narrative to back his policy recommendations—albeit often unconventional and occasionally hard to understand, but one that could be and was often altered by new information and insights. His ability to shift the narrative and policy in a timely way was key to the soft landing of 1993–94, and to the accommodation of the productivity surge in the mid-1990s.

Bernanke confronted a different challenge. In 2007 he pivoted quickly from concerns about inflation toward stabilizing a deteriorating financial system and cushioning the macroeconomic fallout.

Volcker, Greenspan, and Bernanke differed in style and circumstance, but they shared a willingness to revise views when events challenged prior assumptions. They were flexible.

Flexibility in turn rests on a certain kind of humility. None of these chairs lacked confidence. But all understood the limits of knowledge. They were suspicious of dog-

9. Kay and King (2020) stresses the key role of narratives in policy making.

matic forecasts and policy positions. They reached out widely for new ideas or to test their own. Ben Bernanke faced a very different set of challenges after the financial markets began to freeze up. He provided very clear direction that we were going to supply the liquidity that stabilized institutions and markets, but he reached out to other policymakers and staff for ideas about how to accomplish this in unprecedented circumstances.

Strong staff are an often-underappreciated asset in conducting successful policy. Good staff, empowered to speak their minds, will be a resource for policymakers to test ideas in informal conversations. Staff will provide institutional memory while also being an avenue for bringing new ideas and the most recent research into policy analysis. Staff papers contribute to transparency and accountability by exposing the thinking and models informing policy to outside critical analysis. Staff forecasts are most often the starting place for the discussion of the economy and policy. All three of these chairs interacted extensively and in substantive ways with their staff.

Communication: Good communication is essential to preserving central bank independence.

Independence in a democracy requires accountability. Public understanding of the logic behind policy—why actions are taken and how they connect to legislated objectives—is part of that accountability. Communication also improves effectiveness: when markets understand the central bank's reaction function, policy works more efficiently through expectations and financial conditions.

Paul Volcker was skeptical of extensive transparency. He worried that policymakers would be held hostage to forecasts that reality might quickly invalidate and that excessive specificity could constrain flexibility. But even Volcker recognized that major policy shifts required explanation. He communicated extensively around the move to monetary targeting and again around the shift away from it, through speeches, testimony, and press conferences.

Equally important, Volcker engaged directly with constituencies most affected by tight policy. These were often uncomfortable encounters, but they demonstrated that the Federal Reserve was listening and provided an opportunity to explain why short-term pain was necessary to secure long-term gains.

Greenspan inherited some of Volcker's skepticism but gradually concluded that unnecessary uncertainty reduced policy effectiveness. Beginning in 1994, the Federal Reserve immediately announced policy decisions and increasingly explained the reasoning behind them.

Bernanke extended this evolution considerably, expanding forecasts and introducing regular press conferences in the service of both effectiveness and accountability.

Greater transparency, however, creates challenges. Communication must remain consistent with the flexibility and humility required for good policymaking.

Forecasts should communicate uncertainty, not false precision. Central banks know less than outsiders sometimes assume and should say so plainly. Scenario analysis can help explain risks and alternative outcomes without overstating confidence in any single path.

The same caution applies to forward guidance. Policy projections cannot become commitments that inhibit course correction when circumstances change. Forward guid-

ance is especially valuable near the effective lower bound, when policymakers need to shape expectations about future accommodation. Away from the lower bound, clear communication about the policy framework and economic narrative should reduce the need for explicit rate guidance.

Communication with legislators deserves particular emphasis. No constituency matters more for central bank independence. Better understanding can improve oversight, strengthen accountability, and reinforce institutional legitimacy. Jay Powell has devoted substantial effort to congressional outreach and, despite intense political pressure, broad support for monetary policy independence has largely held.

Powell has also provided a master class in communication when attacked by the president. He tuned out the noise for as long as possible, not responding and emphasizing that policy was made on the best analysis possible without regard to politics. But when the legal system was enlisted into the attack, he called it out, rallying support.

Communication with the broader public is more difficult. Most citizens rationally devote little attention to central banking when inflation is low, growth is steady, and institutions function well. But when inflation rises or independence is questioned, public attitudes matter.

Central banks therefore need to keep experimenting with ways to explain their role beyond specialist audiences. Success will be limited, especially in a media environment shaped by social platforms that reward speed, emotion, and oversimplification. Still, engagement matters. Institutions staffed by technocrats must show that they are listening as well as explaining.

VII. The Challenge of Unsustainable Fiscal Trajectories

Public finances are on unsustainable paths in many advanced economies. Debt relative to income has risen to historically high peacetime levels and, in many countries, is projected to continue increasing because of aging populations, geopolitical demands, and persistent structural deficits. That is going to put upward pressure on interest rates and along with strong investment demand—including for AI-related capital spending—may keep interest rates above growth rates for a time, limiting the ability of governments to stabilize debt burdens without major policy changes.

The extreme concern is fiscal dominance: a loss of confidence in government debt that pressures the central bank to finance public borrowing and subordinates monetary policy to fiscal needs, sacrificing price stability and independence.[10] That is not our current situation. But fiscal pressures can threaten independence well before outright fiscal dominance emerges.

Persistent deficits imply increasing debt servicing obligations, impinging on other government priorities. President Trump has justified his call for lower rates and his efforts to control the Federal Reserve in part on budgetary grounds.[11]

Governments facing constrained fiscal space may also expect monetary policy to

10. For a summary of the threat of fiscal dominance see Yellen (2026): https://www.brookings.edu/articles/remarks-by-janet-l-yellen-on-the-future-of-the-fed-central-bank-independence-and-fiscal-dominance/.
11. https://www.reuters.com/world/us/trump-again-calls-fed-board-act-says-powell-doesnt-get-it-2025-07-23/.

shoulder more responsibility during downturns or crises—even when monetary tools are poorly suited to the problem. Financial crises, for example, require close coordination: central banks address liquidity, while fiscal authorities address solvency. Severe downturns at the effective lower bound often require monetary and fiscal policy to work together.

Central banks do not make fiscal policy, but they can clarify its consequences.

In the United States, Federal Reserve officials have generally become more cautious about prescribing specific fiscal actions, appropriately recognizing the limits of technocratic authority. Volcker and especially Greenspan were more willing to comment directly on taxes and spending, sometimes too willing in my view. Subsequent chairs focused less on policy prescriptions and more on economic implications. Bernanke advocated less fiscal restraint during the weak post-crisis recovery; Powell supported fiscal support during the pandemic recovery when monetary policy alone was insufficient.[12]

Powell has repeatedly warned that current fiscal trajectories are unsustainable and may eventually limit governments' ability to respond to recessions while crowding out productive investment. This strikes me as the right balance: central banks should explain economic consequences clearly and forcefully while avoiding prescriptions about precisely how elected officials should close fiscal gaps.

Fiscal stress also raises difficult operational questions. Asset purchases have been used to address market dysfunction and to support macroeconomic stabilization at the effective lower bound. But central banks will protect themselves by clearly defining purchases undertaken for monetary policy or market-functioning purposes so they are not mistaken for actions to simply finance government borrowing or interfere with appropriate price adjustments. That will require setting out ahead of time criteria and circumstances that might trigger true market dysfunction or monetary policy purchases.

VIII. Financial Stability and Central Bank Independence

Financial stability is a core responsibility of most central banks, even where it is not always stated explicitly. In the United States, for example, the Federal Reserve was created in large part to mitigate the recurring financial panics of the late nineteenth and early twentieth centuries. It was given tools to do so: bank supervision, liquidity provision to individual banks at the discount window, and eventually broader open market operations and emergency lending powers to nonbanks.[13]

Yet financial stability presents special challenges for independence because responsibility is often shared. In the United States and elsewhere, central banks operate alongside other supervisory and regulatory agencies, many focused primarily on the safety and soundness of individual institutions rather than system-wide resilience. Central

12. For example, Bernanke testimony of 5/22/2013 (Bernanke 2013): https://www.federalreserve.gov/newsevents/testimony/bernanke20130522a.htm. Powell speech of 10/06/2020 (Powell 2020b): https://www.federalreserve.gov/newsevents/speech/powell20201006a.htm.
13. The preamble to the Federal Reserve Act: "An Act To provide for the establishment of Federal reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes."

banks also frequently lack authority over nonbank intermediaries, where risks may accumulate.

Central banks nevertheless bring a distinctive perspective. Because monetary policy works through financial conditions, central banks operate at the intersection of macroeconomics and financial markets. They monitor vulnerabilities across institutions and markets and are uniquely positioned to assess how shocks may propagate through the broader economy. Independence matters here as well. Short-term political incentives may favor deregulation that stimulates credit and activity in the near term while increasing systemic fragility over time. A degree of insulation allows policymakers to take the longer view.

When instability strikes, the central bank's capacity to provide liquidity becomes indispensable. One early episode in my career illustrates the point. Following the 1987 stock market crash, when equity prices fell more than 20 percent in a single day, the Federal Reserve responded with a brief but powerful statement affirming its readiness to supply liquidity to support the functioning of the financial system. That statement, reinforced by extra open market operations, easing policy, and work behind the scenes to keep payments flowing, helped stabilize markets and prevent broader disruption.[14] Similar principles guided responses in the much more severe crises of 2008 and 2020.

Price stability and financial stability are closely connected.[15] Stable financial institutions improve the transmission of monetary policy, while a resilient financial system gives central banks greater confidence to tighten policy when needed without fear of widespread instability. And crises can weaken support for independence. Central banks are often blamed for failures of supervision or financial excesses, even when responsibility is widely shared.[16] And crisis responses themselves can generate backlash, as we discussed earlier.

What, then, can central banks do?

Most importantly, they should continue to articulate clearly their independent assessment of systemic risk, its macroeconomic implications, and the policies necessary to address it.

In the United States, regulatory authority is becoming more closely aligned with the priorities of elected administrations. Among other causes, the tenure of the vice chair for supervision has become tied to the change in administrations, strengthening their influence inside the Federal Reserve. That is appropriate to a degree: regulation is more political than monetary policy because it often has disproportionate effects across firms and sectors.

But responsibility under the Federal Reserve Act ultimately rests with the Board as a whole. The public interest is best served when the Federal Reserve brings an independent, system-wide perspective to regulatory discussions and remains willing to speak candidly about systemic vulnerabilities—even when that view differs from the administration's.

14. See Carlson (2007): https://www.federalreserve.gov/pubs/feds/2007/200713/index.html.
15. The recent Bailey and Schnabel speeches referenced earlier both make this point in different ways.
16. See for example the conclusions of the Financial Crisis Inquiry Commission (2011), which leaned heavily on Alan Greenspan's deregulatory bent and supervisory failures at the Federal Reserve Bank of New York. https://fcic-static.law.stanford.edu/cdn_media/fcic-reports/fcic_final_report_conclusions.pdf. Others blame what they characterize as too-loose monetary policy in the years just before the crisis.

Such judgments are necessarily imperfect. Stress tests are useful but they are model and scenario dependent and don't cover all risks. Central banks should therefore use their macroeconomic perspective to resist procyclical tendencies in regulation and private risk-taking and to identify vulnerabilities that may otherwise be overlooked.

Where responsibilities are shared across agencies, central banks should first seek persuasion and coordination. But when concerns are ignored, public communication—through financial stability reports, speeches, and testimony—may become necessary. Over time, credibility and independence depend on exercising judgment well.

IX. Conclusion

These are difficult times for central banks.

The economic environment is challenging. Supply shocks have complicated the return to low and stable inflation after the inflation surge of 2021–23. Tariffs, geopolitical fragmentation, and concerns about supply-chain resilience may continue to place upward pressure on prices while weighing on real incomes.

At the same time, central banks operate in a political environment that is increasingly polarized, impatient, and skeptical of technocratic institutions. Rising public debt has heightened the fiscal consequences of monetary policy decisions. Reactions against post-crisis regulation may increase financial vulnerabilities even as central banks attempt to preserve resilience.

In such an environment, pressures on independence are likely to grow rather than recede. History nevertheless offers an encouraging lesson. Central bank independence has endured not because it is theoretically elegant, but because experience repeatedly demonstrates its value. We know from difficult experience that neither price stability nor financial stability is likely to be sustained without some insulation from short-term political pressure.

That insulation, however, cannot be taken for granted. It must be earned and re-earned. The strongest protections are not legal alone. They rest on disciplined focus, institutional competence, humility about uncertainty, and a willingness to explain difficult choices clearly and candidly. I have tried, drawing on my own experience and on the central bankers with whom I worked most closely, to suggest how institutions might preserve support for their independence in a more difficult era.

I conclude with a reminder from Paul Volcker: "In the last analysis independence rests on perceptions of high confidence, of unquestioned integrity, of broad experience, of nonconflicted judgment and the will to act. Clear lines of accountability to the Congress and the public will need to be honored."[17]

17. Volcker (2013). https://www.senseoncents.com/wp-content/uploads/2013/05/Volcker-Transcript-May2013.pdf.

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